

S
379.152
L72BPED
2010



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Board of Public Education

*For the Two Fiscal Years Ended
June 30, 2010*

SEPTEMBER 2010

LEGISLATIVE AUDIT
DIVISION

10-22B



3 0864 1006 0538 8

LEGISLATIVE AUDIT COMMITTEE

REPRESENTATIVES

DEE BROWN, VICE CHAIR
BETSY HANDS
SCOTT MENDENHALL
CAROLYN PEASE-LOPEZ
WAYNE STAHL
BILL WILSON

SENATORS

MITCH TROPILA, CHAIR
GREG BARKUS
JOHN BRENDEN
TAYLOR BROWN
MIKE COONEY
CLIFF LARSEN

AUDIT STAFF

FINANCIAL-COMPLIANCE

DAVID BRAMMER
ANTHONY CACACE
JEANE
CARSTENSEN-GARRETT
VICKIE RAUSER

FRAUD HOTLINE
HELP ELIMINATE FRAUD,
WASTE, AND ABUSE IN
STATE GOVERNMENT.
CALL THE FRAUD
HOTLINE AT:

(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

Direct comments or inquiries to:
Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705
(406) 444-3122

Reports can be found in electronic format at:
<http://leg.mt.gov/audit>

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

September 2010

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Public Education (board) for the two fiscal years ended June 30, 2010. This report contains two recommendations related to the expenditure of non-General Fund money first and expenditure of teacher licensing fees. The board's written response to the audit recommendations is included at the end of the audit report.

We thank the Executive Secretary and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Tori Hunthausen".

Tori Hunthausen, CPA
Legislative Auditor

TABLE OF CONTENTS

Elected, Appointed and Administrative Officials.....	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Introduction.....	1
Background	1
Board of Public Education	1
Certification Standards and Practices Advisory Council	1
Prior Audit Recommendations.....	2
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	3
Expending Non-General Fund Money First.....	3
Appropriation in Violation of State Law	4
INDEPENDENT AUDITOR’S REPORT AND BOARD FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Schedule of Changes in Fund Balances for the Fiscal Year Ended June 30, 2010.....	A-3
Schedule of Changes in Fund Balances for the Fiscal Year Ended June 30, 2009	A-4
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2010.....	A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2009	A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2010.....	A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2009	A-8
Notes to the Financial Schedules	A-9
BOARD RESPONSE	
Board of Public Education	B-1

ELECTED, APPOINTED AND ADMINISTRATIVE OFFICIALS

Board of Public Education

Brian Schweitzer, Governor*

Denise Juneau, Superintendent of Public Instruction*

Sheila Stearns, Commissioner of Higher Education*

		<u>Term Expires</u>
Patty Myers, Chairperson	Great Falls	2014
Sharon Carroll, Vice Chairperson	Ekalaka	2012
John Edwards	Billings	2016
Gisele Forrest	Missoula	2013
Cal Gilbert	Great Falls	2011
Bernard Olson	Lakeside	2015
Erin Williams	Missoula	2017
Tim Seery, Student Representative	Great Falls	2011

*ex officio members

Steve Meloy, Executive Secretary

Certification Standards and Practices Advisory Council

		<u>Term Expires</u>
Sharon Applegate, Chairperson	Kalispell	2011
Jon Runnalls, Vice Chairperson	East Helena	2012
Janice Bishop	Missoula	2013
Mary Susan Fishbaugh	Billings	2011
John Harris	Eureka	2013
Tammy Lacey	Great Falls	2013
Patty Muir	Laurel	2011

Peter Donovan, Administrative Officer

For additional information regarding the board, contact:

Steve Meloy, Executive Secretary
 Board of Public Education
 P.O. Box 200601
 Helena, MT 59620-0601
 Phone: (406) 444-6576
 e-mail: smeloy@mt.gov

MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL COMPLIANCE AUDIT

Board of Public Education

Two Years ended June 30, 2010

SEPTEMBER 2010

10-22B

REPORT SUMMARY

As mandated by the Montana State Constitution, the Board of Public Education, exercises general supervision over the public school system, which includes more than 400 school districts and as assigned by state law, the Montana School for the Deaf and Blind. The Board of Public Education and the Board of Regents are combined to function as the Board of Education, which provides long range planning, policy and program coordination, and a unified budget for state education programs.

Context

The Board of Public Education (board) is responsible for establishing policies for school accreditation, teacher certification, state equalization aid distribution, special education, school bus standards, and various other education related activities. The board is funded by General Fund appropriations and a \$6 yearly teacher license fee collected by the Office of Public Instruction and deposited in the State Special Revenue Fund. The teacher license fee revenue is for the exclusive purpose of funding the activities of the board and the attached Certification Standards and Practices Advisory Council (CSPAC).

The board had approximately \$400,000 of budgeted expenditures for each of the fiscal years 2008-09 and 2009-10.

Results

Our audit includes two recommendations related to the use of the board's General Fund appropriation and funding in the State Special Revenue Fund.

State law requires the use of non-General Fund money to be spent prior to the use of a General Fund appropriation. For fiscal year 2008-09, we found the board had used \$4,910 of its General Fund appropriation for expenditures that should have been applied to the funding available in the State Special Revenue Fund. Since fiscal year 2005-06, the board has inappropriately charged \$19,151 to General Fund appropriations.

The funding in the State Special Revenue Fund from the teacher license fees is statutorily restricted for the use by the board and CSPAC. We found the legislature appropriated \$12,000 of this State Special Revenue Fund funding to the Office of Public Instruction to pay for stipends awarded to teachers. This appropriation is in violation of the state law that restricts the use of this funding.

Recommendation Concurrence

Concur	2
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report or for further information, contact the
Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the website at <http://leg.mt.gov/audit>.
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Board of Public Education (board) for the two fiscal years ended June 30, 2010. The objectives of our audit were to:

1. Determine the board's compliance with selected state laws and regulations.
2. Obtain an understanding of the board's internal control to the extent necessary to support our audit of the financial schedules and, if necessary, make recommendations for improvements in management and internal controls of the board.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the board's financial schedules are fairly presented for the two fiscal years ended June 30, 2010.

In accordance with §5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report. Areas of concern deemed not to have significant effect on the successful operations of the board are not specifically included in the report, but have been discussed with management.

Background

Board of Public Education

The Board of Public Education was created by Article X, section 9, of the Montana Constitution. The board consists of three ex officio members and seven members appointed by the governor and confirmed by the senate. A student, selected annually by the Montana Association of Student Councils, also sits as a nonvoting member of the board. As of June 30, 2010, the board's staff was comprised of four FTE.

It is the board's statutory responsibility to establish policies for school accreditation, teacher certification, state equalization aid distribution, special education, school bus standards, and various other education related activities.

Certification Standards and Practices Advisory Council

There is a seven-member Certification Standards and Practices Advisory Council (CSPAC), authorized in §2-15-1522, MCA, which makes recommendations to the board.

CSPAC was established by the Montana Legislature in 1987. Board members are appointed by the Board of Public Education and serve three year terms. The mission

of the CSPAC is to study and to make recommendations to the Board of Public Education on certification issues concerning teachers, administrators, and specialists; professional standards and ethical conduct; the status and efficacy of approved teacher education programs in Montana; and policies related to the denial, suspension, and revocation of educator certification and the appeals process.

Prior Audit Recommendations

The prior financial-compliance audit of the board for the two fiscal years ended June 30, 2008, contained two recommendations. The board implemented both of these recommendations.

Chapter II – Findings and Recommendations

Expending Non-General Fund Money First

The Board of Public Education did not spend \$4,929 of State Special Revenue Fund appropriation for fiscal year 2008-09 that should have been used for expenditures recorded in the General Fund.

The activities of the Board of Public Education (board) are funded through both General Fund and State Special Revenue Fund appropriations. There are two State Special Revenue Fund accounts used by the board which are funded with teacher certification fees. State law directs \$2 of the teacher certification \$6 fee be used to support activities of the Board of Public Education and the Certification Standards and Practices Advisory Council (CSPAC). The remainder of the fee is to be used only for CSPAC activities.

Section 17-2-108, MCA, requires, with limited exceptions, an office or entity of the executive, legislative, or judicial branch of state government to apply expenditures against appropriated non-General Fund money whenever possible before using General Fund appropriations.

In fiscal year 2008-09, the board did not use \$4,910 of its appropriation for the State Special Revenue Fund, using its General Fund appropriation instead. This has been the practice of the board since 2003, when the state law was amended to allow the use of the \$2 fee for the support of the board and CSPAC activities. Prior to the modification to the law in 2003, the fee was restricted for the use of research activities by the advisory council. Since fiscal year 2005-06, the board has failed to spend \$19,151 of State Special Revenue Fund appropriation authority and has spent General Fund appropriations instead.

The board maintains the \$2 fee is primarily for the support of research activities by CSPAC and the board is constitutionally mandated and its activities should be funded with General Fund monies. The board was not aware of the requirement in state law to spend non-General fund money first and believed they were being fiscally responsible by not spending all of their appropriation in the State Special Revenue Fund.

RECOMMENDATION #1

We recommend the board spend appropriated non-General Fund money before General Fund as required by state law.

Appropriation in Violation of State Law

The Legislature appropriated \$12,000 to the Office of Public Instruction for the 2011 biennium in violation of state law.

The 2009 Legislature appropriated \$12,000 of State Special Revenue Fund authority to the Office of Public Instruction (OPI) to fund stipends awarded to teachers who achieve certification from the National Board for Professional Teaching Standards. Section 20-4-134, MCA, requires payment of a \$3,000 stipend to assist in the costs of achieving the certification, but does not specify any particular funding source.

The revenue source selected by the legislature for this authority was teacher certification fees. However, §20-4-109, MCA, restricts the use of these fees to the Board of Public Education and the CSPAC. According to personnel in the Office of Budget and Program Planning, this particular account was selected because it had a fund balance. No review was done to determine whether the account was statutorily restricted. Appropriation bills cannot amend substantive law; therefore, OPI cannot legally use this money. The board should work with OPI to ensure appropriations using teacher license fees as the source are in accordance with state law.

RECOMMENDATION #2

We recommend the board work with the Office of Public Instruction to ensure appropriations using teacher's license fees as the source are in accordance with state law.

Independent Auditor's Report and Board Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Board of Public Education for each of the fiscal years ended June 30, 2010, and 2009. The information contained in these financial schedules is the responsibility of the board's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the board's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Board of Public Education for each of the fiscal years ended June 30, 2010, and 2009, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

August 9, 2010

BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund
FUND BALANCE: July 1, 2009	\$ <u>(6,014)</u>	\$ <u>106,014</u>
ADDITIONS		
Nonbudgeted Revenues & Transfers-In	609	260
Prior Year Revenues & Transfers-In Adjustments	3,118	3,118
Direct Entries to Fund Balance	<u>199,643</u>	<u>163,517</u>
Total Additions	<u>203,370</u>	<u>166,895</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	199,231	187,547
Nonbudgeted Expenditures & Transfers-Out	98	246
Prior Year Expenditures & Transfers-Out Adjustments	<u>3,118</u>	<u>3,118</u>
Total Reductions	<u>202,447</u>	<u>190,911</u>
FUND BALANCE: June 30, 2010	\$ <u><u>(5,091)</u></u>	\$ <u><u>81,998</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund
FUND BALANCE: July 1, 2008	\$ (3,667)	\$ 120,272
ADDITIONS		
Nonbudgeted Revenues & Transfers-In	378	
Direct Entries to Fund Balance	<u>215,464</u>	<u>169,022</u>
Total Additions	<u>215,842</u>	<u>169,022</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	218,233	182,870
Nonbudgeted Expenditures & Transfers-Out	<u>(44)</u>	<u>410</u>
Total Reductions	<u>218,189</u>	<u>183,280</u>
FUND BALANCE: June 30, 2009	\$ <u>(6,014)</u>	\$ <u>106,014</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Taxes	\$ 349		\$ 349
Inception of Lease/Installment Contract	<u>3,378</u>	\$ 3,378	<u>6,756</u>
Total Revenues & Transfers-In	<u>3,727</u>	<u>3,378</u>	<u>7,105</u>
Less: Nonbudgeted Revenues & Transfers-In	609	260	869
Prior Year Revenues & Transfers-In Adjustments	<u>3,118</u>	<u>3,118</u>	<u>6,236</u>
Actual Budgeted Revenues & Transfers-In	<u>0</u>	<u>0</u>	<u>0</u>
Estimated Revenues & Transfers-In	<u>400</u>		<u>400</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (400)</u>	<u>\$ 0</u>	<u>\$ (400)</u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Taxes	\$ (400)		\$ (400)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (400)</u>	<u>\$ 0</u>	<u>\$ (400)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund
TOTAL REVENUES & TRANSFERS-IN BY CLASS	
Taxes	\$ 378
Total Revenues & Transfers-In	378
Less: Nonbudgeted Revenues & Transfers-In	378
Actual Budgeted Revenues & Transfers-In	0
Estimated Revenues & Transfers-In	400
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (400)
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS	
Taxes	\$ (400)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (400)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>K-12 EDUCATION</u>
Personal Services	
Salaries	\$ 216,715
Other Compensation	2,650
Employee Benefits	71,153
Total	<u>290,518</u>
Operating Expenses	
Other Services	13,525
Supplies & Materials	5,326
Communications	4,053
Travel	29,062
Rent	13,065
Repair & Maintenance	2,747
Other Expenses	26,524
Total	<u>94,302</u>
Equipment & Intangible Assets	
Capital leases - equipment	<u>6,756</u>
Total	<u>6,756</u>
Debt Service	
Capital Leases	<u>1,782</u>
Total	<u>1,782</u>
Total Expenditures & Transfers-Out	\$ <u><u>393,358</u></u>

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund	\$ 202,447
State Special Revenue Fund	190,911
Total Expenditures & Transfers-Out	<u>393,358</u>
Less: Nonbudgeted Expenditures & Transfers-Out	344
Prior Year Expenditures & Transfers-Out Adjustments	<u>6,236</u>
Actual Budgeted Expenditures & Transfers-Out	386,778
Budget Authority	413,185
Unspent Budget Authority	\$ <u><u>26,407</u></u>

UNSPENT BUDGET AUTHORITY BY FUND

General Fund	\$ <u>26,407</u>
Unspent Budget Authority	\$ <u><u>26,407</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>K-12 EDUCATION</u>
Personal Services	
Salaries	\$ 212,603
Other Compensation	2,000
Employee Benefits	68,163
Total	<u>282,766</u>
Operating Expenses	
Other Services	16,661
Supplies & Materials	8,192
Communications	4,807
Travel	38,423
Rent	13,138
Repair & Maintenance	4,441
Other Expenses	33,041
Total	<u>118,703</u>
Total Expenditures & Transfers-Out	\$ <u><u>401,469</u></u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	\$ 218,189
State Special Revenue Fund	183,280
Total Expenditures & Transfers-Out	<u>401,469</u>
Less: Nonbudgeted Expenditures & Transfers-Out	366
Prior Year Expenditures & Transfers-Out Adjustments	
Actual Budgeted Expenditures & Transfers-Out	<u>401,103</u>
Budget Authority	412,817
Unspent Budget Authority	\$ <u><u>11,714</u></u>
UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	\$ 6,721
State Special Revenue Fund	4,993
Unspent Budget Authority	\$ <u><u>11,714</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Board of Public Education

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2010

1. Summary of Significant Accounting Policies

Basis of Accounting

The Board of Public Education (board) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue) In applying the modified accrual basis, the board records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the board incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the board to record the cost of employees' annual and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the board receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The board uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. Board State Special Revenue Funds include the Certification Standards and Practices Advisory Council account and the Research Fund account, both of which are funded by teacher certification fees. State Special Revenue Funds also include the Montana Commission of Teachers, which is privately funded through the National Commission of Teachers, and the Student Leadership account, which is funded through a grant from the National Association of State Boards of Education.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The board has authority to pay obligations from the statewide General Fund within its appropriation limits. The board expends cash or other assets from the statewide fund when it pays General Fund obligations. The board's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2009 and June 30, 2010.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and Special Revenue Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Capital Lease and Prior Year Adjustment

The board entered into a capital lease for the purchase of a photocopier during fiscal year 2008-09 for the amount of \$3,118 from the General Fund and \$3,118 from the State Special Revenue Fund. The lease was recorded on the board's financial records during fiscal year 2009-10 and is reported in the accompanying financial schedules for the fiscal year ended June 30, 2010, as the following revenue, expenditures, and prior year adjustments:

- ♦ Inception of Lease/Installment Contract
- ♦ Capital Lease
- ♦ Prior Year Revenues & Transfers-In Adjustments
- ♦ Prior Year Expenditures & Transfers-Out Adjustments

BOARD OF PUBLIC
EDUCATION

BOARD RESPONSE



Board of Public Education

September 3, 2010

BOARD MEMBERS

APPOINTED MEMBERS:

Patty Myers - Chair
Great Falls

Sharon Carroll - Vice Chair
Ekalaka

Erin Williams
Missoula

Cal Gilbert
Great Falls

Bernie Olson
Lakeside

John Edwards
Billings

Gisele Forrest
Missoula

Tim Seery, Student Rep.
Great Falls

EX OFFICIO MEMBERS:

Sheila Stearns, Ed.D.
Commissioner of
Higher Education

Denise Juneau,
Superintendent of
Public Instruction

Brian Schweitzer, Governor

EXECUTIVE SECRETARY:

Steve Meloy

Tori Hunthausen, CPA
Legislative Auditor
Legislative Audit Division
P.O. Box 201705
Helena, MT 59620-1705

RECEIVED

SEP 07 2010

LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

The purpose of this letter is to provide comments by the Board of Public Education (BPE) concerning the Legislative Audit Division's financial compliance audit. We thank the legislative Audit Division and specifically David Brammer for his hard work and professionalism during this audit. The following is our response to the recommendations in the financial compliance audit.

Recommendation #1

We recommend that the board:

A. Spend appropriated non-General Fund money before General Fund as required by state law.

BPE's Response: We concur.

The Board of Public Education supported legislation in 2003 to provide more flexibility in funding for meeting its constitutional responsibilities. In addition the Certification Standards and Practices Advisory Council (CSPAC) found that inflationary increases were stretching its operational needs beyond what its earmarked special revenue (\$4.00) would support. To avoid asking the legislature to increase teacher fees, we suggested broadening the use of the Research Fund to help make CSPAC whole and to support the Board's activities. Had we been aware of §17-2-108 MCA we may have had second thoughts about supporting the 2003 Legislation as we feel a strong fiduciary responsibility to maintain an adequate cash reserve in the Research Fund created by a \$2.00 fee for each teacher's annual licensure. Though we concur, we are very concerned that utilization of Special Revenue first will diminish the General Fund support for the constitutionally provided for Board of Public Education and secondly will draw down the cash balance in the \$2.00 fund.

Recommendation #2

We recommend that the board:

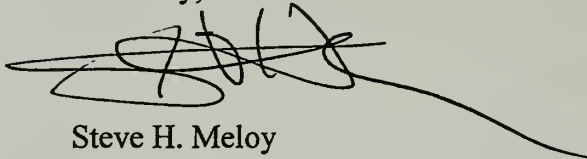
B. Work with the Office of Public Instruction to ensure appropriations using teacher's license fees as the source are in accordance with state law.

BPE's Response: We concur.

The Board of Public Education in a 2009 Appropriation Subcommittee did not support a legislator's motion to take from the \$2.00 Research Fund of the Board of Public Education and Certification Standards and Practices Advisory Council to fund stipends mandated by statute. At the time, we suggested that this \$2.00 fund was the only way the Board could resist asking the legislature to raise teacher licensure fees. It was our understanding that the legal infrastructure was in place to make this happen. We concur that we need to work closer with the Office of Public Instruction to ensure the correct use of teacher license fees.

Thank you for the opportunity to comment on the financial audit. We will implement these recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve H. Meloy", with a long horizontal line extending to the right.

Steve H. Meloy
Executive Secretary

